

**GWINN AREA COMMUNITY SCHOOLS
GWINN, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

TABLE OF CONTENTS

Independent Auditors' Report	4
Management's Discussion and Analysis (Unaudited)	6

BASIC FINANCIAL STATEMENTS

District-wide Financial Statements:

Statement of Net Assets	14
Statement of Activities	15

Fund Financial Statements:

Governmental Funds:	
Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	19

Fiduciary Funds:

Statement of Fiduciary Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fiduciary Net Assets	21
Statement of Fiduciary Net Assets	22

Notes to Financial Statements	23
-------------------------------------	----

REQUIRED SUPPLEMENTAL INFORMATION

General Fund – Budgetary Comparison Schedule	37
--	----

SUPPLEMENTAL INFORMATION

Non-Major Governmental Funds:

Combining Balance Sheet	39
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	40

Non-Major Special Revenue Funds

Combining Balance Sheet	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	42

School Lunch Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	43
---	----

Athletic Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	44
---	----

Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	45
---	----

Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	46
---	----

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	48
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	49
Schedule of Expenditures of Federal Awards	51
Notes to Schedule of Expenditures of Federal Awards	54
Schedule of Findings and Questioned Costs	56
Summary Schedule of Prior Audit Findings	57
Report to Management	58



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, Gwinn, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Gwinn Area Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gwinn Area Community Schools management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, Gwinn, Michigan as of June 30, 2006, and the respective changes in financial position where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Gwinn Area Community Schools basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Gwinn Area Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

GWINN AREA COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2006

Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Net assets for Gwinn Area Community Schools as a whole were reported as \$3,513,449. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were \$12,882,364, while revenues from all sources totaled \$12,661,785, resulting in a decrease in net assets of \$220,579.
- September 2005 enrollment increased 20.31 FTEs over the prior year and the Foundation Allowance increased 175 to 6,875 per student.
- The Food Service Program continues to be a self-sustaining program.
- The general fund reported a decrease of \$267,044 after other financing sources (uses). This is \$153,657 less than the forecasted decrease of \$420,701, which is a net result of revenues being \$64,669 more, expenditures of \$69,373 less (both of these do not include Federal program grants) and other financing uses of \$19,615 less (transfer to the Athletic Fund). These are all immaterial (1.2%) when compared with budgeted revenues/transfers of \$12,042,260 and budgeted expenditures/transfers of \$12,462,961. There were no significant variances between the final budget and actual amounts.

Overview of the Financial Statements

This annual report consists of three parts: Management's discussions and analysis (this section), the basic financial statements, and required supplementary information. Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two *types* of financial statements: District-Wide Financial Statements and Fund Financial Statements.

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the district's overall financial status.
- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the district's operations in more detail than the District-Wide Statements by providing information about the District's most significant funds – the General Fund and School Lunch Fund, with all other funds presented in one column as non-major funds.
- The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

District-Wide Financial Statements

The one thing all stake-holders (parents, teachers and community members) want to know is the financial condition of the District as a result of the year's activities. The District-Wide Financial Statements report information about the District as a whole and about its activities by using the accrual basis of accounting similar to those used by private-sector companies. The two required District-Wide Financial Statements are the *Statement of Net Assets* and the *Statement of Activities*. The *Statements of Net Assets* includes all of the District's assets and liabilities. The *Statement of Activities* includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

In the District-Wide Financial Statements, the Statement of Activities is divided into two categories:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition, no asset is reported and the issuance of debt is recorded as a financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures, however, future year's debt obligations are not recorded. The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the following fund types and related activities are described as follows:

Governmental Funds – All of the District's services are reported in governmental funds, which include the general fund, food service fund, athletic fund, capital projects fund, and debt service fund. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations.

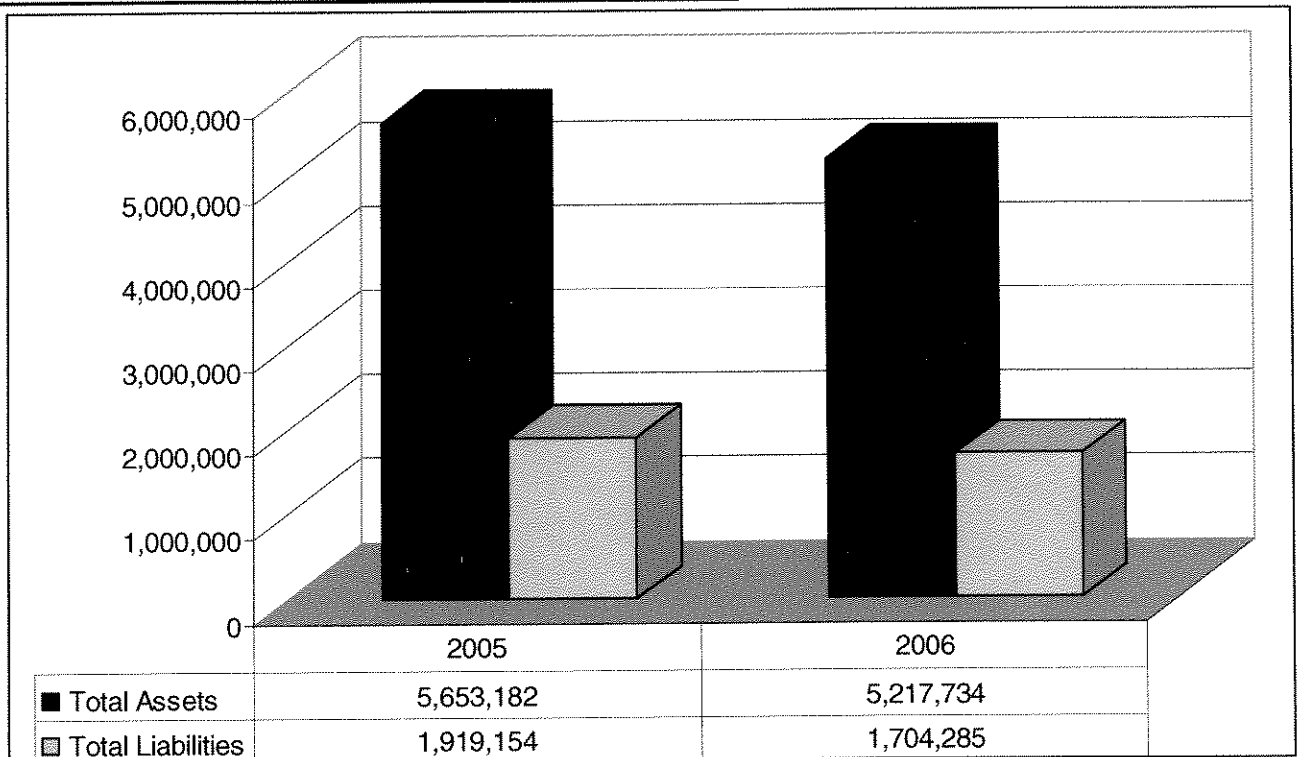
Financial Analysis of the District as a Whole

The condensed Statement of Net Assets as of June 30, 2006 and 2005 is as follows:

		Governmental Activities	
		<u>2006</u>	<u>2005</u>
Current Assets		\$3,508,002	\$3,798,949
Capital Assets, net		<u>1,709,732</u>	<u>1,854,233</u>
Total Assets		5,217,734	5,653,182
Current liabilities		1,285,027	1,337,317
Non-current liabilities		<u>419,258</u>	<u>581,837</u>
Total Liabilities		1,704,285	1,919,154
Investment in Capital Assets, Net of Related Debt		1,507,125	1,500,928
Unrestricted		<u>2,006,324</u>	<u>2,233,100</u>
Total Net Assets		<u>\$3,513,449</u>	<u>\$3,734,028</u>

The District's net assets were \$3,513,449 at June 30, 2006. Capital assets, net of related debt totaling \$1,507,125 compares the original cost, less depreciation of the District's capital assets to long-term debt. The remaining amount of net assets of \$2,006,324 was unreserved and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unreserved net assets from year to year.

Assets and Liabilities 2005 vs. 2006 – Statement of Net Assets



The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2006.

The condensed Statement of Activities for the fiscal year ended June 30, 2006 and 2005 is as follows:

		Governmental Activities	
		<u>2006</u>	<u>2005</u>
Revenues:			
Program revenues:			
Charges for Services		\$ 260,094	\$ 408,201
Operating Grants and Contributions		2,536,112	1,977,697
General Revenues			
Property taxes, levied for general purposes		1,466,556	1,307,421
State of Michigan aid, unrestricted		8,294,611	8,568,989
Local aid, unrestricted		-	340,700
Interest and investment earnings		52,613	23,064
Other		<u>51,799</u>	<u>4,542</u>
	Total Revenues	<u>12,661,785</u>	<u>12,630,614</u>
Program Expenses:			
Instruction and instructional support		7,165,084	7,095,701
Support Services		4,565,298	5,175,161
Food Services		526,803	507,543
Athletics		246,738	268,911
Capital projects		38,218	20,059
Community services		73,995	56,605
Interest on long-term debt		9,082	3,007
Payments to other governmental units		18,378	27,118
Depreciation (unallocated)		<u>238,768</u>	<u>161,663</u>
	Total Expenses	12,882,364	13,315,768
	Change in Net Assets	(220,579)	(685,154)
	Beginning Net Assets, as restated	<u>3,734,028</u>	<u>4,571,013</u>
	Ending Net Assets	<u>\$3,513,449</u>	<u>\$3,885,859</u>

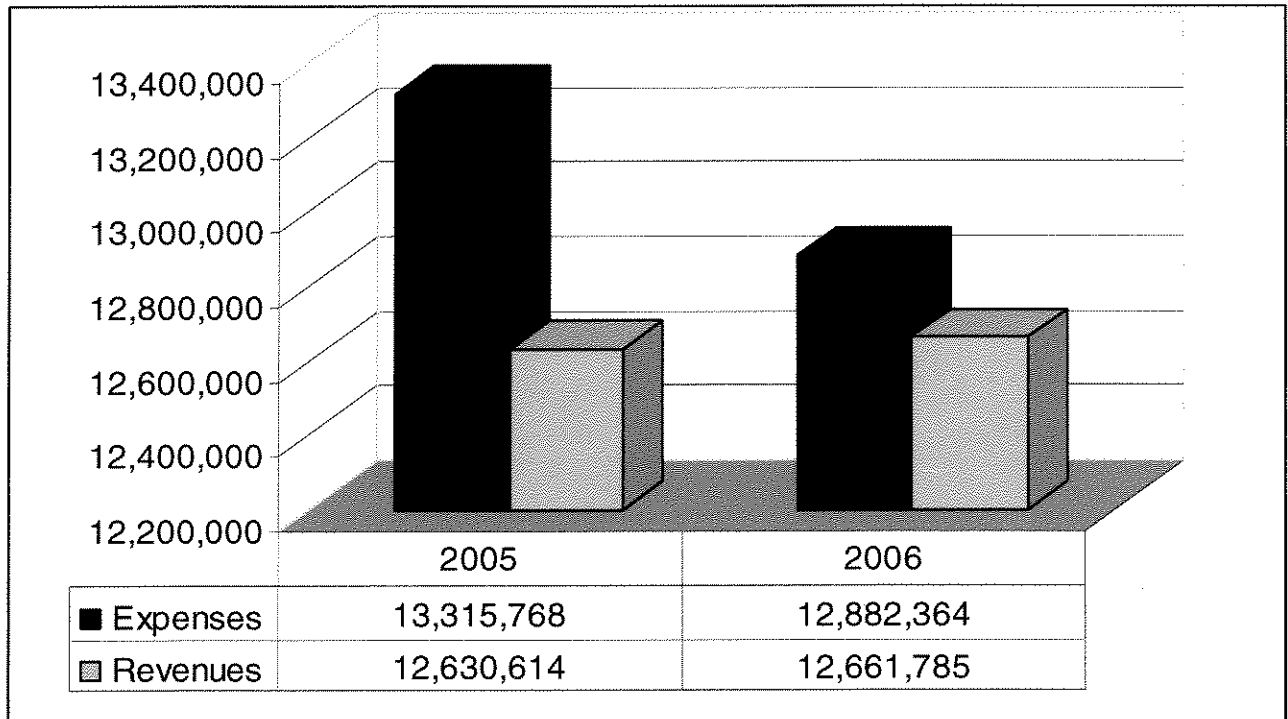
As reported in the Statement of Activities, the cost of all our governmental activities this year was \$12,882,364. Certain activities were partially funded from those who benefited from the programs (\$260,094) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2,536,112). We paid for the remaining "public benefit" portion of our governmental activities with \$8,294,611 in State Foundation Allowance, \$1,466,556 in taxes, and other revenues, such as interest and general entitlements.

The District experienced a decrease in net assets for the year of \$220,579.

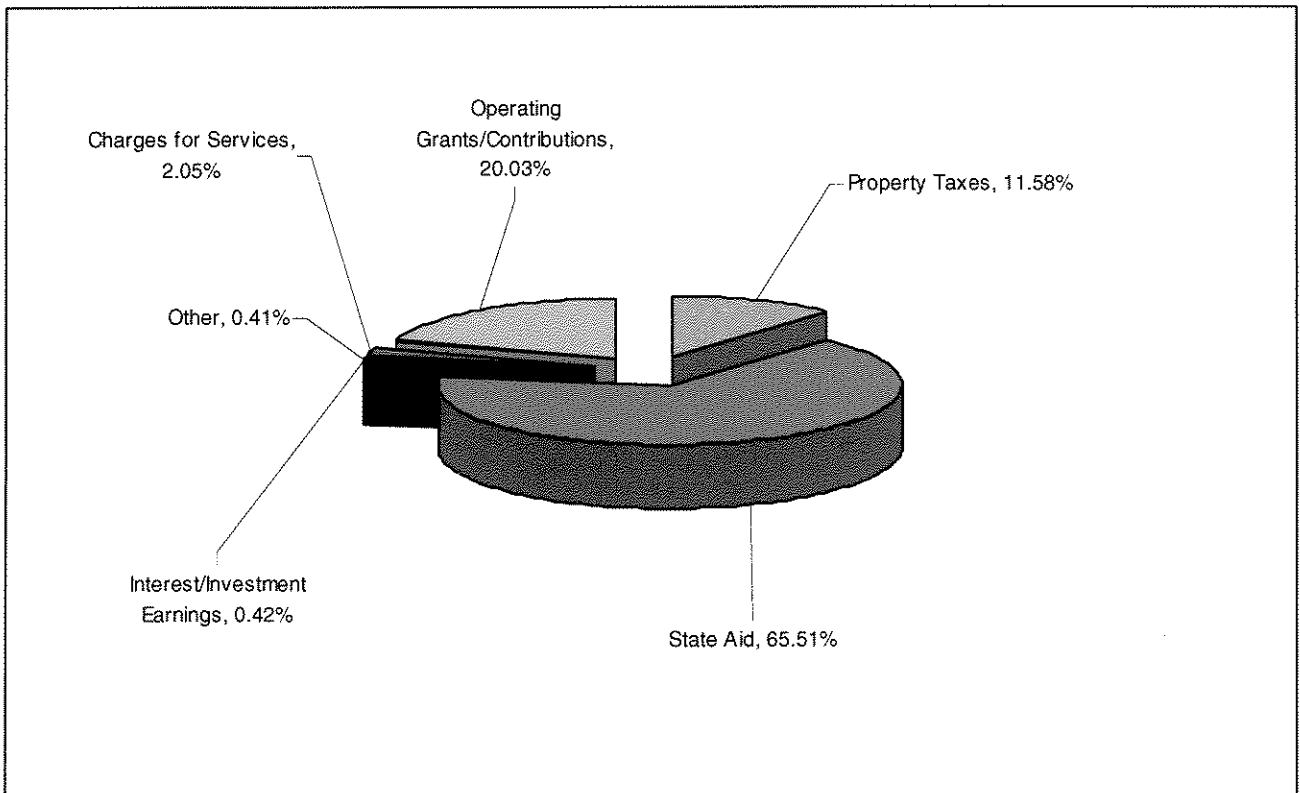
Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of \$(244,271)
- Depreciation charged to expense in the amount of \$(238,768)
- Purchase of capital assets in the amount of \$94,267
- Principal payment on debt in the amount of \$150,698
- Compensated absences not reported as expenditures in the amount of \$17,414
- Other miscellaneous transactions of \$81

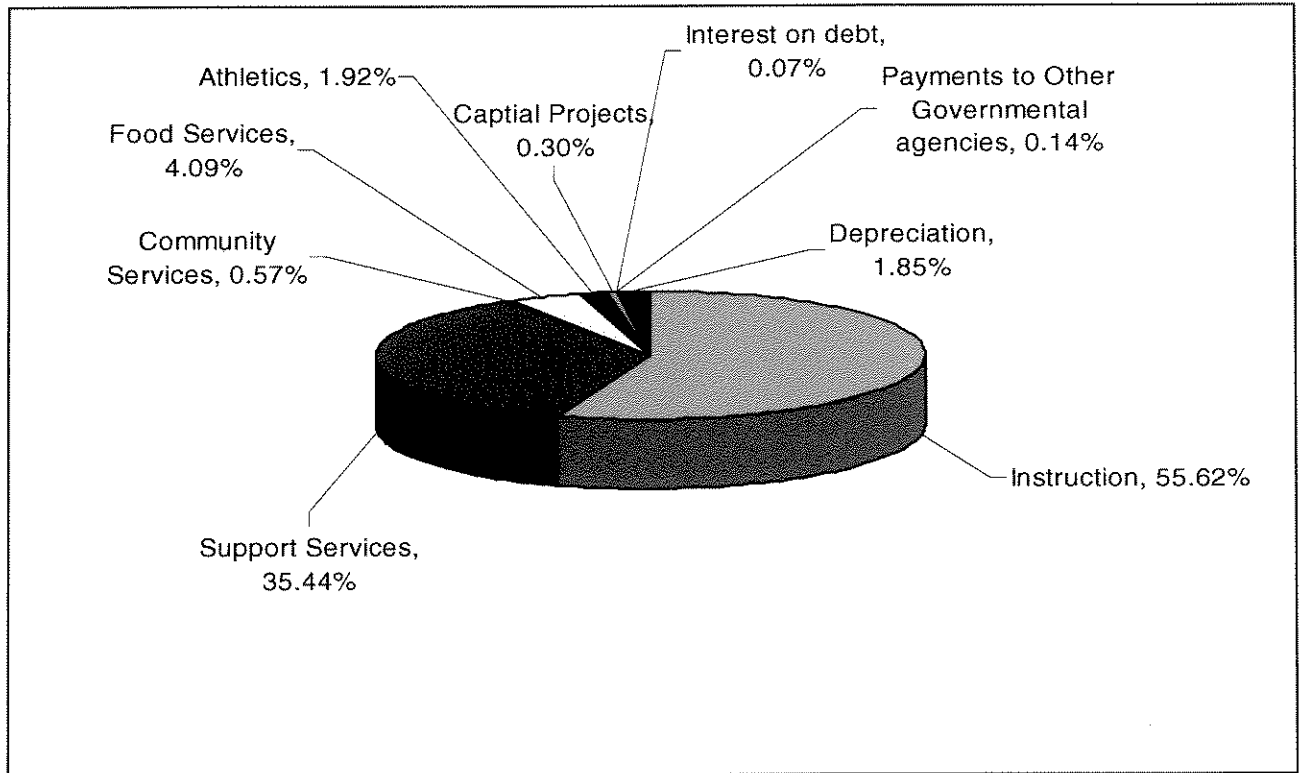
Revenues and Expenses 2005 vs. 2006 – Statement of Activities



Sources of Revenues for Fiscal Year 2006 – Statement of Activities



Expenses for Fiscal Year 2006 – Statement of Activities



The following table presents the cost of each of the District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). Total costs were \$12,882,364; however, the following table excludes \$304,446 of costs related to depreciation (\$238,768), capital projects (\$38,218), transfers to other governmental units (\$18,378) and interest on long-term debt (\$9,082).

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
<i>Governmental Activities</i>				
Instruction	\$7,165,084	\$7,095,701	\$5,066,291	\$5,777,143
Support Services	4,565,298	5,175,161	4,559,769	4,778,433
Food Services	526,803	507,543	(64,357)	(28,664)
Athletics	246,738	268,911	180,605	219,973
Community Services	73,995	56,605	73,995	(28,862)
Totals	\$12,577,918	\$13,103,921	\$9,816,303	\$10,718,023

The net cost shows the financial burden that each function placed on the District's operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitutes 66% of the District's operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

Financial Analysis of the District's Funds

The District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$2,240,371, a decrease of \$244,271 from the beginning of the year. The change in the combined fund balance was primarily due to the deficit from the general fund in the amount of \$267,044. The decision was made to allow the School Lunch Fund to keep additional fund balance in the amount of 22,773 in expectation that a new food delivery truck would need to be purchased in the near future.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2006, the budget was amended in February 2006 and again in June 2006. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the General Fund original budget included the following:

- Updating local revenue to reflect revisions in the non-homestead taxable value,
- Increasing state aid due to increased enrollment,
- Revise grant allocations and corresponding expenditures
- Amend salary and benefits due to reductions in teaching and support staff.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006 and 2005, the District had \$8,193,042 and 8,639,350, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
<i>Capital Assets at Year-End</i>		
Land	\$ 37,293	\$ 37,293
Building & grounds	5,844,238	5,844,238
Site improvements	342,300	342,300
Machinery & equipment	686,464	653,387
Vehicles	<u>1,168,267</u>	<u>1,315,824</u>
Totals	<u>\$8,078,562</u>	<u>\$8,193,042</u>

This year's addition of \$94,267 included 1 new bus and a sound system and scoreboard for the gymnasium. No debt was issued for these additions.

It is hard to anticipate capital additions for the 2006-2007 fiscal year as much of this depends on whether the bond issue passes in February 2007. However, \$150,000 was set aside for capital improvements in the event that it does not pass. In addition, a bus was purchased. We present more detailed information about our capital assets in the notes (Note G) to the financial statements.

Debt

At June 30, 2006 and 2005, the School District had \$353,305 and \$375,781, respectively in bonds and long-term debts as depicted below.

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<i>Outstanding Debt at Year-End</i>		
School Improvement Bonds	\$202,607	\$219,216
Northern Lights Revolving Loan	-	134,089
Totals	<u>\$202,607</u>	<u>\$353,305</u>

We present more detailed information about our long-term debt in the notes (note F) to the financial statements.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when setting the District's fiscal year 2007 budget. One of the most important factors affecting the budget is our student count. State Aid is determined by multiplying the blended student count (25% of the February 2006 and 75% of the September 2006 count) by the foundation allowance per pupil. The 2007 fiscal year budget, adopted in June 2006, was based on an estimate of students that will be enrolled in September 2006. It is important to understand that 77% of the District's General Fund revenues are based on an estimate (student enrollment and foundation allowance). Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operation.

Based on the September 2006 count, student enrollment will be lower than what was estimated in June 2006 by the blended count of 25.56 FTEs. This decline in enrollment was softened by the District's ability to use a three year average enrollment instead of the traditional method. This decline in enrollment will result in additional \$180,000 loss in revenue. Had the traditional method been used the decline would have been much greater at 63.71 FTEs which would have resulted in a \$451,000 loss of revenue.

Even though the District managed to reduce the 2006-2007 deficit by \$400,000 through privatization of custodial services, contracting of substitutes and non-represented coaches, non-use of the pool, reduced administrative staff and support and changing administrative insurance to a high-deductible plan the budget is still approximately \$550,000 in deficit due to the unexpected loss of students. The district will continue to assess its opportunities throughout the year to see if additional opportunities for reductions are available.

In response to the evaluation of the condition and efficiency of all buildings the Board of Education in conjunction with concerned citizens decided it would be necessary to place a bond proposal on the February 2007 ballot to finance the exhaustive list of needed capital improvements. If the proposal passes, it could relieve the deficit by as much as 150,000 in fiscal year 2007 and would have a positive financial impact on following years.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers and parents with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Gwinn Area Community Schools, 50 W. M-35, Gwinn MI, 49841.

GWINN AREA COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 421,560
Investments	1,150,258
Receivables:	
Accounts receivable	254,555
Delinquent property taxes	-
Due from other governmental units	1,679,512
Inventories	2,117
Prepaid expense	-
	<hr/>
TOTAL CURRENT ASSETS	3,508,002
Non-current assets:	
Land and construction in progress	37,293
Capital assets	8,041,268
Less accumulated depreciation	<u>(6,368,829)</u>
TOTAL NON-CURRENT ASSETS	1,709,732
TOTAL ASSETS	5,217,734
LIABILITIES:	
Current liabilities:	
Accounts payable	218,088
Accrued liabilities	1,028,891
Deferred revenue	20,652
Current portion of long term debt obligations	<u>17,396</u>
TOTAL CURRENT LIABILITIES	1,285,027
Non-current liabilities:	
Non-current portion of employee benefit obligations	234,047
Non-current portion of long term debt obligations	<u>185,211</u>
TOTAL NON-CURRENT LIABILITIES	419,258
TOTAL LIABILITIES	1,704,285
NET ASSETS:	
Invested in capital assets net of related debt	1,507,125
Unrestricted	<u>2,006,324</u>
TOTAL NET ASSETS	\$ 3,513,449

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2006

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 7,165,084	\$ 22,544	\$ 2,076,249	\$ (5,066,291)
Supporting services	4,565,298	1,023	4,506	(4,559,769)
Community Services	73,995	-	-	(73,995)
Food service activities	526,803	170,394	420,766	64,357
Athletic activities	246,738	66,133	-	(180,605)
Capital Outlay	38,218	-	10,495	(27,723)
Interest on retirement of debt	9,082	-	24,096	15,014
Payments to other governmental agencies	18,378	-	-	(18,378)
Depreciation - unallocated	238,768	-	-	(238,768)
TOTAL GOVERNMENTAL ACTIVITIES	12,882,364	260,094	2,536,112	(10,086,158)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,466,556
State aid not restricted to specific purposes:				8,294,611
Interest and investment earnings				52,613
Miscellaneous				51,799
TOTAL GENERAL REVENUE AND TRANSFERS				9,865,579
				CHANGES IN NET ASSETS (220,579)
Net Assets , July 1, as restated				3,734,028
				NET ASSETS, JUNE 30 \$ 3,513,449

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2006

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 420,181	\$ 1,379	\$ 421,560
Investments	1,150,258	-	1,150,258
Receivables:			
Accounts receivable	246,536	8,019	254,555
Due from other funds	-	25,468	25,468
Due from other governmental units	1,679,512	-	1,679,512
Inventories	-	2,117	2,117
TOTAL ASSETS	<u><u>\$ 3,496,487</u></u>	<u><u>\$ 36,983</u></u>	<u><u>\$ 3,533,470</u></u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 83,541	\$ 6,893	\$ 90,434
Accrued liabilities	1,028,891	-	1,028,891
Due to other funds	153,032	90	153,122
Deferred revenue	20,652	-	20,652
TOTAL LIABILITIES	<u>1,286,116</u>	<u>6,983</u>	<u>1,293,099</u>
 FUND BALANCES:			
Reserved for:			
School service activities	-	30,000	30,000
Unreserved:			
Undesignated	2,210,371	-	2,210,371
TOTAL FUND BALANCES	<u>2,210,371</u>	<u>30,000</u>	<u>2,240,371</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 3,496,487</u></u>	<u><u>\$ 36,983</u></u>	<u><u>\$ 3,533,470</u></u>

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Total Fund Balances for Governmental Funds	\$	2,240,371
---	-----------	------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of capital assets	8,078,562	
Accumulated depreciation	<u>(6,368,830)</u>	
		1,709,732

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current	17,396	
Bonds payable - long term	185,211	
Employee benefits payable	<u>234,047</u>	
		(436,654)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$	<u>3,513,449</u>
-----------	-------------------------

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
REVENUES:			
Federal sources	\$ 571,504	\$ 391,696	\$ 963,200
State Aid	9,227,328	53,166	9,280,494
Local sources	1,796,265	247,022	2,043,287
Other	374,804	-	374,804
TOTAL REVENUES	<u>11,969,901</u>	<u>691,884</u>	<u>12,661,785</u>
EXPENDITURES:			
Current:			
Instruction	7,182,498	-	7,182,498
Supporting services	4,565,298	-	4,565,298
Community services	73,995	-	73,995
Other	18,378	-	18,378
Food service activities	-	526,803	526,803
Athletic activities	-	246,738	246,738
Capital Outlay	108,820	23,665	132,485
Debt Service:			
Principal	-	150,698	150,698
Interest	-	9,163	9,163
TOTAL EXPENDITURES	<u>11,948,989</u>	<u>957,067</u>	<u>12,906,056</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>20,912</u>	<u>(265,183)</u>	<u>(244,271)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	61,516	349,472	410,988
Transfers out	(349,472)	(61,516)	(410,988)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(287,956)</u>	<u>287,956</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(267,044)</u>	<u>22,773</u>	<u>(244,271)</u>
Fund Balance, July 1	<u>2,477,415</u>	<u>7,227</u>	<u>2,484,642</u>
FUND BALANCE, JUNE 30	<u><u>\$ 2,210,371</u></u>	<u><u>\$ 30,000</u></u>	<u><u>\$ 2,240,371</u></u>

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	(244,271)
---	-----------	------------------

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	(238,768)		
Capital outlays	<u>94,267</u>		(144,501)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	150,698
--	---------

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditures is reported when due	81
---	----

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in sick and vacation leave	<u>17,414</u>		<u>17,414</u>
-----------------------------------	---------------	--	---------------

Change in Net Assets of Governmental Activities	\$	<u>(220,579)</u>
--	-----------	-------------------------

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2006

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 12
Investments	47,492
Due from other funds	<u>19,288</u>
TOTAL ASSETS	<u><u>\$ 66,792</u></u>
NET ASSETS:	
Reserved for:	
Scholarships	47,492
Unreserved	
Designated for scholarships	<u>19,300</u>
TOTAL NET ASSETS	<u><u>\$ 66,792</u></u>

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	Private Purpose Trust Fund
ADDITIONS:	
Interest	\$ 2,292
TOTAL ADDITIONS	<u>2,292</u>
DEDUCTIONS:	
Scholarships awarded	1,300
Unrealized loss on investments	<u>423</u>
TOTAL DEDUCTIONS	<u>1,723</u>
CHANGE IN NET ASSETS	569
Net Assets, July 1	<u>66,223</u>
NET ASSETS, JUNE 30	<u><u>\$ 66,792</u></u>

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2006

	<u>Student Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,898
Accounts receivable	105
Due from other funds	<u>108,366</u>
TOTAL ASSETS	<u><u>\$ 113,369</u></u>
LIABILITIES:	
Due to student groups	<u>\$ 113,369</u>
TOTAL LIABILITIES	<u><u>\$ 113,369</u></u>

The accompanying notes are an integral part of these financial statements.

GWINN AREA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statement of the Gwinn Area Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the School District are discussed below.

Reporting entity

The School District provides elementary and secondary education for the residents of Forsyth, Sands, West Branch and Skandia Townships, and secondary education for the residents of Wells Township. A seven-member Board of Education elected by the public has oversight responsibility over all operations of the School District.

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority; the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Gwinn Area Community Schools contain all the funds and account groups controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District not is the School District a component unit of another entity.

Basic Financial Statements – Government-Wide Financial Statements

The School District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School District's instruction, support and community services are classified as governmental activities. The School District does not have any business-type activities. Fiduciary activities are not included in the government-wide financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported as either investment in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

Basic Financial Statements -- Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Gwinn Area Community Schools are the Food Service, Athletics and Public Library Funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.

Fiduciary Funds

Agency Fund – The Agency Fund accounts for all assets held by the School District in a custodial capacity for various student organizations. Since the Agency Fund is custodial in nature, they do not involve the measurement of results of operations.

Nonexpendable Trust Funds – Nonexpendable Trust Funds are those whose principal cannot be expended. The administration of the School District treats the Scholarship Fund as nonexpendable due to restrictions of outside contributors.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The District will first apply restricted net assets for expenses incurred for purposes for which both restricted and unrestricted net assets are available.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$20,652 in the General Fund for grant funding that has been received but is unearned.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the district-wide statements.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property taxes are levied December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and nonoperating and are sub-classified by function such as personnel services and other services and charges.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2006, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$421,560	\$4,910	\$426,470
Investments	1,150,258	47,492	1,197,750
	<u>\$1,571,818</u>	<u>\$52,402</u>	<u>\$1,624,220</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require it but the District has a deposit policy for custodial credit risk. As of June 30, 2006, \$426,470 of the District's bank balance of \$226,470 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2006, the District had the following investments.

Investment Type	Fair Value	Maturities
		Maturities Less Than 1 Year
MILAF Funds	\$650,258	\$650,258
Wells Fargo Mutual Fund	47,492	47,492
Time Deposits	500,000	500,000
TOTAL INVESTMENTS	<u>\$1,197,750</u>	<u>\$1,197,750</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has an investment policy that would further limit its investment choices. Ratings are not required for the District's investment in Treasury Notes. The District's investments are in accordance with statutory authority.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments consist of \$1,679,512 due from the State of Michigan for State Aid.

NOTE D – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2006 is as follows:

	Governmental Activities
Accrued wages	\$748,852
MESSA payable	218,003
Accrued fringes	62,036
	<u>\$1,028,891</u>

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2006, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
School Improvement Bonds – Series 1998	\$219,216	\$ -	\$16,609	\$202,607
M-Tec loan	134,089	-	134,089	-
Subtotal	353,305	-	150,698	202,607
Employee Benefits	251,461	-	17,414	234,047
TOTAL LONG-TERM DEBT	<u>\$604,766</u>	<u>\$ -</u>	<u>\$168,112</u>	<u>\$436,654</u>

NOTE E – LONG-TERM OBLIGATIONS (Continued):

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2006 through June 30, 2016 are as follows:

BONDS PAYABLE

The School District participated in the School Improvement Bond, Series 1998, to obtain one-half of their portion of the statewide Durant Settlement. As part of the settlement, the School District will receive one-half of their total settlement \$686,265 over a ten-year period. The remaining one-half of the settlement was received in bond proceeds. The debt service requirements of the bonds will be allocated to the School District by the State of Michigan over a fifteen-year period beginning May 15, 1999, as part of their state aid payments. A schedule of the School District's repayment schedule is as follows:

School Improvement Bonds			
May 15			
School Year	Interest	Principal	Total
2006-2007	\$6,696	\$17,396	\$24,092
2007-2008	5,868	18,228	24,096
2008-2009	5,000	19,096	24,096
2009-2010	4,091	20,005	24,096
2010-2011	3,138	20,958	24,096
2011-2016	30,877	106,924	137,801
Totals	<u>\$55,670</u>	<u>\$202,607</u>	<u>\$258,277</u>

NOTE F – EMPLOYEE BENEFITS – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid \$60 per day up to 120 days of unused accumulated sick leave. Other non-teaching employees are paid for sick leave based on their appropriate contract.

As of June 30, 2006 composition of the liability for employee benefits as reported in the statement of net assets is as follows:

Paid time off – Teamsters	\$129,975
Sick leave – Central office & teachers	151,858
Personal Leave - Principals	2,375
Vacation – Central office	18,027
	<u>\$302,235</u>

The liability has been recognized as follows:

Current portion	\$68,188
Long-term portion	234,047
	<u>\$302,235</u>

The current portion is recorded as a liability in the General Fund and is included with accrued liabilities.

NOTE G – CAPITAL ASSETS:

Capital assets activity of the School District's governmental activities was as follows:

	Balance 7/01/05	Additions/ Adjustments	Deductions	Balance 6/30/06
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$37,293	\$ -	\$ -	\$37,293
Capital assets being depreciated:				
Site improvements	342,300	-	-	342,300
Buildings	5,844,238	-	-	5,844,238
Equipment	653,387	33,077	-	686,464
Vehicles and buses	1,315,824	61,190	208,747	1,168,267
Total Capital Assets	8,193,042	94,267	208,747	8,078,562
Less accumulated depreciation:				
Site improvements	342,300	-	-	342,300
Buildings	4,358,938	145,856	-	4,504,794
Equipment	504,156	30,521	-	534,677
Vehicle and buses	1,133,415	62,391	208,747	987,059
Total Accumulated Depreciation	6,338,809	238,768	208,747	6,368,830
Governmental Activities Capital Assets, Net	\$1,854,233	\$(144,501)	\$ -	\$1,709,732

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$238,768
Total Governmental Activities Depreciation Expense	\$238,768

NOTE H – RESERVED AND DESIGNATED FUND BALANCE:

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

Scholarship Income: The School District reserves fund balance for the nonexpendable gifts received in the Scholarship Fund. Only the investment income from these gifts is to be used for scholarships.

Unexpended Investment Income on Scholarship Funds: Interest and dividends received on Scholarship Fund investments are to be used for scholarship awards to students. The accumulated balance of unexpended investment income is designated for scholarships.

NOTE I – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on a blended count of pupil membership.

NOTE I – STATE REVENUE (Continued):

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2005 - August 2006.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE J – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

	Operating Transfers In		Operating Transfers Out
General Fund	\$61,516	General Fund	\$349,472
School Lunch Fund	7,380	School Lunch Fund	45,000
Athletic Fund	202,482	Athletic Fund	16,516
Capital Projects Fund	3,845	Capital Projects Fund	-
Debt Service Fund	135,765	Debt Service Fund	-
Total	<u>\$410,988</u>	Total	<u>\$410,988</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE K – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$32,374 during fiscal 2006 in revenues and expenditures for USDA commodities.

NOTE L – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2005 totaled \$197,459,689 (\$102,430,278 designated as Homestead and \$95,029,411 designated as Non-Homestead). The total tax levy consists of 18 mills for the General Fund.

NOTE M – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$1,297,303 which consisted of \$1,090,466 from the School District and \$206,737 from employees electing the MIP option. These represent approximately 16% and 3% of total payroll, respectively. The School District's contributions to MPERS for 2005 and 2004 were \$994,065 and \$994,065

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$6,832,837. The School District's total payroll was approximately \$6,911,000.

Post Employment Benefits – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPERS, at MPERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

NOTE N – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District, together with approximately 334 other school districts in the State, participate in the MASB-SEG Property/Casualty Pool, Inc., (Pool) a governmental group property and casualty self-insurance pool. The School District pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks, or risks in concentrated areas of exposure by re-insuring certain levels of risk with other insurers or re-insurers. The School District's comprehensive and fleet insurance coverage is limited to a maximum of \$6,000,000 per occurrence of all claims. The School District also maintains an additional \$1,000,000 per occurrence for excess liability coverage. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the School District.

Management is unaware of any pending or threatened claims that are not covered by the Pool that would be material to the financial statements.

NOTE O – ECONOMIC DEPENDENCY:

The School District received approximately 80 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Gwinn. The District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE P – INTERFUND RECEIVABLE AND PAYABLES:

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows.

	Interfund Receivable		Interfund Payable
General Fund	\$ -	General Fund	\$153,032
School Lunch Fund	23,106	School Lunch Fund	-
Athletic Fund	2,362	Athletic Fund	90
Private Purpose Trust	19,288	Private Purpose Trust	-
Student Activities	108,366	Student Activities	-
TOTAL	\$153,122	TOTAL	\$153,122

NOTE Q – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

	<u>Excess Expenditures</u>
General Fund	
Fiscal Services	\$12,980
Operation and Maintenance	50,389
Special Revenue	
Athletic Fund	\$1,225

NOTE R – NET ASSETS RESTATED:

The governmental activities net assets were restated at the beginning of the year as a result of an accounting error in the reporting treatment of the amounts payable to the Fiduciary Funds. The restatement resulted in a decrease of net assets of \$151,831.

REQUIRED SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 2,192,405	\$ 2,005,072	\$ 1,796,265	\$ (187,333)	\$ (208,807)
State sources	8,768,274	8,971,428	9,227,328	203,154	255,900
Federal sources	893,621	647,016	571,504	(246,605)	(75,512)
Other	306,200	357,228	374,804	68,604	17,576
TOTAL REVENUES	11,854,300	11,980,744	11,969,901	(162,180)	(10,843)
EXPENDITURES:					
Instruction:					
Basic Programs	5,713,300	5,326,444	5,228,883	386,856	97,561
Added Needs	1,915,660	1,993,720	1,953,615	(78,060)	40,105
Total Instruction	7,628,960	7,320,164	7,182,498	308,796	137,666
Supporting Services:					
Pupil services	524,425	473,788	462,828	50,637	10,960
Instructional staff	670,280	369,788	353,806	300,492	15,982
General administration	332,137	351,717	340,783	(19,580)	10,934
School administration	927,540	877,586	861,613	49,954	15,973
Fiscal services	190,339	204,395	217,375	(14,056)	(12,980)
Operation and maintenance	1,590,679	1,456,467	1,506,856	134,212	(50,389)
Transportation	833,199	775,998	678,426	57,201	97,572
Central	157,600	154,163	143,220	3,437	10,943
Other	430	430	391	-	39
Total Supporting Services	5,226,629	4,664,332	4,565,298	562,297	99,034
Community Services	28,785	96,808	73,995	(68,023)	22,813
Capital Outlay	-	-	108,820	-	(108,820)
Other	57,875	12,570	18,378	45,305	(5,808)
TOTAL EXPENDITURES	12,942,249	12,093,874	11,948,989	848,375	144,885
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,087,949)	(113,130)	20,912	686,195	134,042
OTHER FINANCING SOURCES (USES)					
Transfers in	52,400	61,516	61,516	9,116	-
Transfers out	(481,814)	(369,087)	(349,472)	112,727	19,615
TOTAL OTHER FINANCING SOURCES (USES)	(429,414)	(307,571)	(287,956)	121,843	19,615
NET CHANGE IN FUND BALANCE	(1,517,363)	(420,701)	(267,044)	808,038	153,657
Fund Balance, July 1	2,477,415	2,477,415	2,477,415	-	-
FUND BALANCE, JUNE 30	\$ 960,052	\$ 2,056,714	\$ 2,210,371	\$ 808,038	\$ 153,657

SUPPLEMENTAL INFORMATION

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2006

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,379	\$ -	\$ -	\$ 1,379
Accounts receivable	8,019	-	-	8,019
Due from other funds	25,468	-	-	25,468
Inventory	<u>2,117</u>	<u>-</u>	<u>-</u>	<u>2,117</u>
TOTAL ASSETS	<u><u>\$ 36,983</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 36,983</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 6,893	\$ -	\$ -	\$ 6,893
Due to other funds	<u>90</u>	<u>-</u>	<u>-</u>	<u>90</u>
TOTAL LIABILITIES	<u>6,983</u>	<u>-</u>	<u>-</u>	<u>6,983</u>
FUND BALANCES:				
Reserved for:				
School service activities	30,000	-	-	30,000
Retirement of debt	-	-	-	-
Capital projects	-	-	-	-
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 36,983</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 36,983</u></u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	Special Revenue	Capital Projects	Debt Service	Total
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
School lunch activities	170,394	-	-	170,394
Athletic activities	76,628	-	-	76,628
State aid	29,070	-	24,096	53,166
Federal sources	391,696	-	-	391,696
TOTAL REVENUES	667,788	-	24,096	691,884
EXPENDITURES:				
School lunch activities	526,803	-	-	526,803
Athletic activities	246,738	-	-	246,738
Capital Outlay	19,722	3,943	-	23,665
Debt service activities	-	-	150,698	150,698
Principal	-	-	9,163	9,163
Interest and fees	-	-	-	-
TOTAL EXPENDITURES	793,263	3,943	159,861	957,067
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(125,475)	(3,943)	(135,765)	(265,183)
OTHER FINANCING SOURCES (USES):				
Transfers in	209,862	3,845	135,765	349,472
Transfers out	(61,516)	-	-	(61,516)
TOTAL OTHER FINANCING SOURCES (USES)	148,346	3,845	135,765	287,956
NET CHANGE IN FUND BALANCE	22,871	(98)	-	22,773
Fund Balance, July 1	7,129	98	-	7,227
FUND BALANCE, JUNE 30	\$ 30,000	\$ -	\$ -	\$ 30,000

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Balance Sheet

June 30, 2006

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,379	\$ -	\$ 1,379
Accounts receivable	7,969	50	8,019
Due from other funds	23,106	2,362	25,468
Inventory	<u>2,117</u>	<u>-</u>	<u>2,117</u>
TOTAL ASSETS	<u><u>\$ 34,571</u></u>	<u><u>\$ 2,412</u></u>	<u><u>\$ 36,983</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 4,571	\$ 2,322	\$ 6,893
Due to other funds	<u>-</u>	<u>90</u>	<u>90</u>
TOTAL LIABILITIES	<u>4,571</u>	<u>2,412</u>	<u>6,983</u>
FUND BALANCES:			
Reserved for school service activities	<u>30,000</u>	<u>-</u>	<u>30,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 34,571</u></u>	<u><u>\$ 2,412</u></u>	<u><u>\$ 36,983</u></u>

GWINN AREA COMMUNITY SCHOOLS

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	School Lunch Fund	Athletic Fund	Total
REVENUES:			
Athletic activities	\$ -	\$ 76,628	\$ 76,628
School lunch activities	170,394	-	170,394
State aid	29,070	-	29,070
Federal sources	391,696	-	391,696
TOTAL REVENUES	591,160	76,628	667,788
EXPENDITURES:			
School lunch activities	526,803	-	526,803
Athletic activities	-	246,738	246,738
Capital Outlay	3,866	15,856	19,722
TOTAL EXPENDITURES	530,669	262,594	793,263
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	60,491	(185,966)	(125,475)
OTHER FINANCING SOURCES (USES):			
Transfers in	7,380	202,482	209,862
Transfers out	(45,000)	(16,516)	(61,516)
TOTAL OTHER FINANCING SOURCES (USES)	(37,620)	185,966	148,346
NET CHANGE IN FUND BALANCE	22,871	-	22,871
Fund Balance, July 1	7,129	-	7,129
FUND BALANCE, JUNE 30	\$ 30,000	\$ -	\$ 30,000

GWINN AREA COMMUNITY SCHOOLS

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	\$ 169,550	\$ 170,394	\$ 844
State aid	25,455	29,070	3,615
Federal sources	382,900	391,696	8,796
TOTAL REVENUES	<u>577,905</u>	<u>591,160</u>	<u>13,255</u>
EXPENDITURES:			
School lunch activities:			
Salaries and fringe benefits	299,946	290,440	9,506
Purchased services	14,503	6,626	7,877
Supplies and materials and other expenses	238,942	229,737	9,205
Capital outlay	<u>-</u>	<u>3,866</u>	<u>(3,866)</u>
TOTAL EXPENDITURES	<u>553,391</u>	<u>530,669</u>	<u>22,722</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	24,514	60,491	35,977
OTHER FINANCING SOURCES (USES):			
Transfers in	13,357	7,380	(5,977)
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>(31,643)</u>	<u>(37,620)</u>	<u>(5,977)</u>
NET CHANGE IN FUND BALANCE	(7,129)	22,871	30,000
Fund Balance, July 1	<u>7,129</u>	<u>7,129</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 30,000</u></u>	<u><u>\$ 30,000</u></u>

GWINN AREA COMMUNITY SCHOOLS

Athletic Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Athletic activities	\$ 62,036	\$ 76,628	\$ 14,592
TOTAL REVENUES	<u>62,036</u>	<u>76,628</u>	<u>14,592</u>
EXPENDITURES:			
Athletic activities:			
Salaries and fringe benefits	209,747	207,231	2,516
Purchased services	15,250	12,851	2,399
Supplies and materials	36,372	26,656	9,716
Capital outlay	<u>-</u>	<u>15,856</u>	<u>(15,856)</u>
TOTAL EXPENDITURES	<u>261,369</u>	<u>262,594</u>	<u>(1,225)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(199,333)</u>	<u>(185,966)</u>	<u>13,367</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	215,849	202,482	(13,367)
Transfers out	<u>(16,516)</u>	<u>(16,516)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>199,333</u>	<u>185,966</u>	<u>(13,367)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Capital Projects Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Miscellaneous	\$ -	\$ -	\$ -
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Capital Outlay	<u>139,708</u>	<u>3,943</u>	<u>135,765</u>
TOTAL EXPENDITURES	<u>139,708</u>	<u>3,943</u>	<u>135,765</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(139,708)	(3,943)	135,765
OTHER FINANCING SOURCES (USES)			
Transfer in	<u>139,610</u>	<u>3,845</u>	<u>(135,765)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>139,610</u>	<u>3,845</u>	<u>(135,765)</u>
NET CHANGE IN FUND BALANCE	(98)	(98)	-
Fund Balance, July 1	<u>98</u>	<u>98</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GWINN AREA COMMUNITY SCHOOLS

Debt Service Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
State aid	\$ -	\$ 24,096	\$ 24,096
TOTAL REVENUES	<u>-</u>	<u>24,096</u>	<u>24,096</u>
EXPENDITURES:			
Principal payments	-	150,698	(150,698)
Interest and agent fees	-	9,163	(9,163)
TOTAL EXPENDITURES	<u>-</u>	<u>159,861</u>	<u>(159,861)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(135,765)</u>	<u>(135,765)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	135,765	135,765
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>135,765</u>	<u>135,765</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Gwinn Area Community Schools
Gwinn, MI 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools as of and for the year ended June 30, 2006, which collectively comprise the Gwinn Area Community School's basic financial statements and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gwinn Area Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gwinn Area Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 06-01. These instances can also be found in a separate letter to management dated August 3, 2006.

This report is intended solely for the information and use of the audit committee, management, and Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 3, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

Compliance

We have audited the compliance of Gwinn Area Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Gwinn Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the School District, the Board, State and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 31, 2006

GWINN AREA COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Approved</u> <u>Grant Award</u> <u>Amount</u>	<u>(Memo Only)</u> <u>Prior Year</u> <u>Expenditure</u>	<u>Accrued</u> <u>(Deferred)</u> <u>Revenue</u> <u>July 1, 2005</u>	<u>Current</u> <u>Year</u> <u>Expenditures</u>	<u>Current</u> <u>Year Cash</u> <u>Receipts</u>	<u>Accrued</u> <u>(Deferred)</u> <u>Revenue</u> <u>June 30, 2006</u>
84.060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
84.060	-	-	-	-	-	-
84.060	-	-	-	-	-	-
	-	-	-	-	-	-

TOTAL DIRECT

84.010	31,305	-	-	31,305	31,305	-
84.010	327,018	-	-	327,018	327,018	-
84.010	-	13,056	-	-	-	-
84.010	-	16,745	-	-	-	-
84.010	333,355	333,368	108,805	(13)	108,792	-
TOTAL	691,678	363,169	108,805	358,310	467,115	-

84.367	5,467	-	-	5,467	5,467	-
84.367	99,325	-	-	58,568	56,908	1,660
84.367	-	8,340	-	-	-	-
84.367	-	2,962	-	-	-	-
84.367	96,097	96,534	24,825	(437)	24,388	-

84.332	-	-	-	-	-	-
84.332	270,940	216,567	1,088	54,373	55,461	-
84.332	-	17,092	-	-	-	-

84.298	-	-	-	-	-	-
--------	---	---	---	---	---	---

U.S. Department of Education:
Direct Program:
P.L. 92-318 Indian Education, Title VII, Part A:
E-S060A020067
B-060A050067
E-S060A040067

Passed through Mich. Department of Education:
ECIA Title I:
051530 0506
061503 0504
041530 0304
041530 0405
051530 0405

ECIA Title IIA:
050520 0506
060520 0506
040520 0405
040520 0304
050520 0405

Comprehensive School Reform
031870 0304
041870 0405
031870 0304

ECIA Title VI:
020250 0102

Federal Grantor Pass Through Grantor Program Title Grant Number		Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2006
ECIA Title IID:		84.318	\$ 9,267	\$ 9,267	\$ -	\$ -	\$ -	\$ -
054290 0405		84.318	6,803	-	-	6,803	6,803	-
064290 0506								
ECIA Title V:		84.298	11,541	-	-	11,541	11,541	-
060250 0506		84.298	-	817	-	-	-	-
040250 0405		84.298	16,935	16,935	-	-	-	-
050250 0405								
TOTAL			516,375	368,514	25,913	136,315	160,568	1,660
TOTAL PASSED THROUGH MDE			1,208,053	731,683	134,718	494,625	627,683	1,660
Passed Through Marquette-Alger Regional Educational Services Agency (MARESA):								
Safe & Drug Free Schools 042860 0405		84.186	-	-	(302)	302	-	-
Safe & Drug Free Schools 062860 0506		84.186	4,156	-	-	4,156	4,156	-
Safe & Drug Free Schools 052860 0405		84.186	-	4,234	(45)	45	-	-
TOTAL			4,156	4,234	(347)	4,503	4,156	-
P.L. 94-192 Flow Through - #060450 0506		84.027	60,952	-	-	60,952	4,853	56,099
P.L. 94-192 Flow Through - #050450 0405		84.027	115,132	115,132	1,351	-	1,351	-
TOTAL			176,084	115,132	1,351	60,952	6,204	56,099
Goals 2000		84.276	-	-	-	-	-	-
TOTAL			-	-	-	-	-	-
Homeless		84.196	-	-	-	-	-	-
Preschool #050460-0405		84.173	-	1,163	163	-	163	-
Preschool #040460-0304		84.173	1,000	-	-	1,000	1,000	-
Autism (UP CARES) #060490-3D51		84.027	-	-	-	-	-	-
Autism (UP CARES) #050490-1D20		84.027	-	294	294	-	294	-
TOTAL			1,000	1,457	457	1,000	1,457	-
Abstinence Partnership		92.235	-	-	-	-	-	-
Abstinence Partnership		92.235	-	-	-	-	-	-
TOTAL			-	-	-	-	-	-
Perkins - 05-06 6012-02		84.048	5,769	-	-	5,769	5,769	-
Perkins - 04-05 5012-02		84.048	-	6,110	-	-	-	-
TOTAL			5,769	6,110	-	5,769	5,769	-

Federal CFDA Number	Federal Grantor Pass Through Grantor Program Title Grant Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2006
93.778	LEA Medicaid FFS-Transportation	\$ 527	\$ 1,379	\$ -	\$ 527	\$ 527	-
	TOTAL	527	1,379	-	527	527	-
	TOTAL PASSED THROUGH MARESA	187,536	128,312	1,461	72,751	18,113	56,099
	TOTAL U.S. DEPARTMENT OF EDUCATION	1,395,589	859,995	136,179	567,376	645,796	57,759
97.004	Passed through Michigan State Police: Homeland Security Grant Program Part II-School Initiative	-	745	-	3,979	3,979	-
	TOTAL	-	745	-	3,979	3,979	-
	TOTAL PASSED THROUGH MICHIGAN STATE POLICE	-	745	-	3,979	3,979	-
94.004	Community Service Passed through Michigan Community Service Commission Learn & Serve Project MCSC/MLS/ 78-04	-	1,664	-	-	-	-
10.559	U.S. Department of Agriculture: Passed through MDE: Summer Food Program	13,642	14,430	4,674	8,968	13,642	-
10.555	Nutrition Cluster: Passed through MDE: National School Lunch Program: Section 4 -Total Serving 1957 & 1958 Section 11 - Free and Reduced 1967 & 1968	38,269 213,112 251,381	33,301 184,011 217,312	- - -	38,269 213,112 251,381	38,269 213,112 251,381	- - -
	TOTAL						
10.553	National School Breakfast Program: Breakfast 1977 & 1978	87,461 87,461 338,842	71,811 71,811 289,123	- - -	87,461 87,461 338,842	87,461 87,461 338,842	- - -
	Total Nutrition Cluster						
10.550	Food Distribution: Entitlement Commodities Bonus Commodities	27,497 4,877 32,374	25,054 6,591 31,645	- - -	27,497 4,877 32,374	27,497 4,877 32,374	- - -
	TOTAL						
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	384,858	335,198	4,674	380,184	384,858	-
	TOTAL FEDERAL FINANCIAL ASSISTANCE	\$ 1,780,447	\$ 1,197,602	\$ 140,853	\$ 951,539	\$ 1,034,633	\$ 57,759

GWINN AREA COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2006 and are not included on the Schedule of Expenditures of Federal Awards.

Description	Project Number	Amount Reported
School Breakfast	056320	<u>\$7,113</u>

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		\$987,280
Add payments not on R7120:		
Food distribution commodities	\$32,374	
Passed through MARESA	72,751	
Passed through Michigan State Police	3,979	
Less – Deferred revenue at beginning of year – MDE	(139,392)	
Add – Deferred revenue at end of year – MDE	1,660	
Less – School Breakfast Program	<u>(7,113)</u>	<u>(35,741)</u>
 TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		 <u>\$951,539</u>

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:	
Total Federal Revenue Sources reported in the financial statements	\$963,200
Reconciling Items:	
School Breakfast Funds	(7,113)
Summer Food Program	(4,400)
Other minor differences in program revenues	(148)
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u>\$951,539</u>

GWINN AREA COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Gwinn Area Community Schools disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Gwinn Area Community Schools were disclosed during the audit.
7. The programs tested as major programs were:

ECIA Title I	84.010
--------------	--------
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Gwinn Area Community Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Excess Expenditures Over Appropriations

06-01 Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that schools shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the General Fund and Special Revenue Funds have been shown on a functional basis. The approved budgets of the District for these funds were adopted on an activity and/or program level. During the year ended June 30, 2006, the District incurred functional expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Effect: The District is not in compliance with State Law.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The District should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year June 30, 2006

There were no findings and questioned costs
for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

Gwinn Area Community Schools *Report to Management Letter* *For the Year Ended June 30, 2006*

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan 49841

In planning and performing our audit of the financial statements of the Gwinn Area Community Schools for the year ended June 30, 2006; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be instances of non-compliance and other comments under standards established by the American Institute of Certified Public Accountants.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures, shall be filed with the State Treasurer and reported to the Attorney General.

The Gwinn Area Community Schools was found to be in violation of the legal and contractual provisions of the Uniform Budgeting and Accounting Act (Public Act 621) in certain individual funds as enumerated upon in the Footnote Q of the financial statements.

Other Comments and Recommendations

Cash

Although the District's cash is being reconciled to a subsidiary spreadsheet for monitoring, it is not being reconciled to the District's general ledger on a monthly basis but rather at year-end. The basis of strength in any system of sound internal control is a strong reconciliation function. We suggest, and good internal control dictates, the general ledger accounts be reconciled on a monthly basis with the appropriate accounting entries being made to the system even if a supplemental activity is being performed. This will insure accurate financial reporting on an interim basis for decision making by the Board of Education and management.

Other School Activity Funds

We were made aware of the internal controls over cash handling for the school lunch ticket sales, athletic revenue, and the student activity fund receipting were in need of improvement. The most crucial areas to consider are cash management and the cash reconciliation function, where the potential exists for intentional or unintentional errors to be made and not detected by employees in the normal course of operations on a timely basis. We recommend the cash, a copy of the completed deposit slip, and supporting documentation signed by the individuals transmitting the deposit be sent to the business manager to be used in the reconciliation process. Ideally, for athletic activities the beginning and ending ticket sale control numbers should be recorded and cash received should be reconciled to ticket sales.

Compensated Absences – Current Portion

The current portion of compensated absences payable which is recorded in the General Fund in the amount of \$68,188 and has not been adjusted since 2001. In the current year examination the actual current portion of compensated absences was calculated to be \$13,848. We recommend contacting the Michigan Department of Education to determine where to properly classify this adjustment for financial reporting prior to making the adjustment in year 2006-07.

Trust Fund

The Stock Certificate dating back to a 1986 donation should be reported at fair market value in the District's accounting records. In addition, as stock certificates are easily convertible to cash we recommend the certificates be kept in a locked safe or vault or turned over to a third party broker for safekeeping.

* * * * *

This report is intended solely for the information and use of the Gwinn Area Community Schools' board, management, and other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Gwinn Area Community Schools' staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 31, 2006